→ Mark your confusion.
→ Purposefully annotate the article (1-2 mature, thoughtful responses per page to what the author is saying)
→ Write a 250+ word response to the article.
(If you are a teacher or student who would like to modify this Google Doc, go to File > Make a Copy. I cannot and do not respond to Share requests -- my apologies!)

The U.S. Debt and How It Got So Big

By Kimberly Amadeo for *The Balance*, 5-12-19

The U.S. debt is the sum of all outstanding debt owed by the federal government. On February 11, 2019, it exceeded $22 trillion. It passed the milestone of $21 trillion on March 15, 2018. The U.S. Treasury Department's "Debt to the Penny" shows the current total public debt outstanding. This figure changes every day. The debt clock in New York also tracks it.

Two-thirds is debt held by the public. The government owes this to buyers of U.S. Treasury bills, notes, and bonds. That includes individuals, companies, and foreign governments.

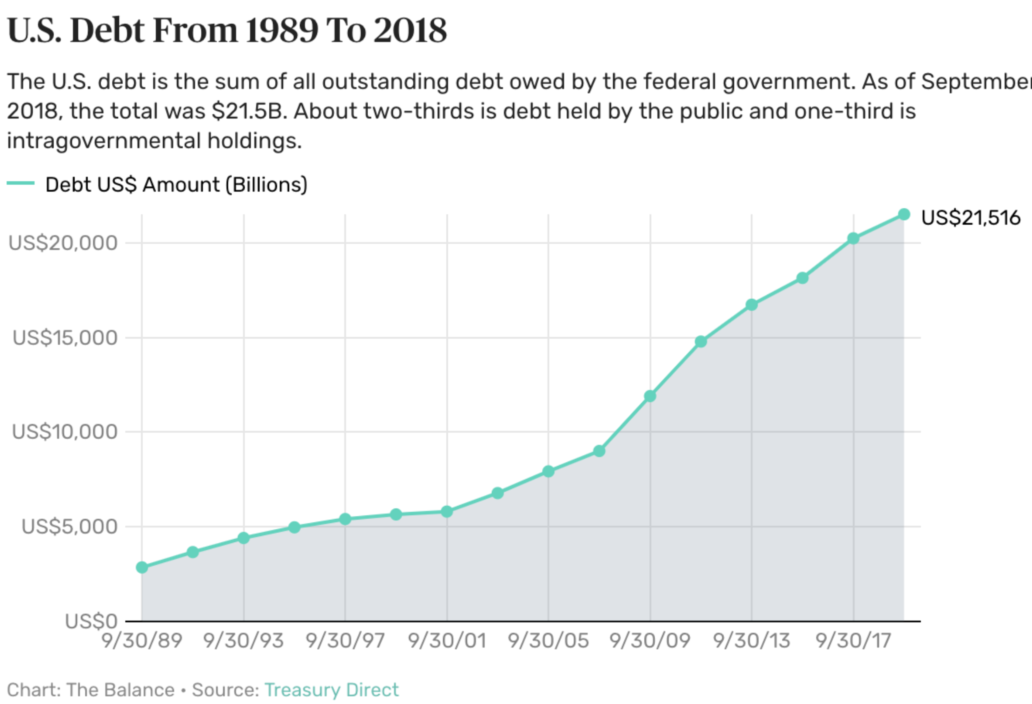
The remaining third is intragovernmental debt. The Treasury owes this to its various departments who hold Government Account securities. Social Security and other trust funds are the biggest owners. They have been running surpluses for years. The federal government uses these surpluses to pay for other departments. These securities will come due as baby boomers retire over the next two decades. Since Social Security and trust funds are the largest owners, the answer as to who owns the U.S. debt the most would be: everyone's retirement money.

Note: America's debt is the largest sovereign debt in the world for a single country. It runs neck and neck with that of the European Union, which is a unified trade body of 28 member countries.

The debt is greater than what America produces in a whole year. This high debt-to-gross domestic product ratio tells investors that the country might have problems repaying the loans. That's a new and worrying occurrence for the United States. In 1988, the debt was only half of America's economic output.

How the Debt Got So Large

The chart below tracks U.S. debt from 1989 to 2018. It increased 653 percent during that time. It was $20.245 trillion in September 2017, the end of the government's fiscal year. It includes both debt held by the public and intragovernmental debt.



There are five significant causes of the size of the national debt. First, the debt is an accumulation of federal budget deficits. Each new program and tax cut adds to the debt. These show up in budget deficits by president. The largest deficit goes to President Obama. He added the American Recovery and Reinvestment Act stimulus package, the Obama tax cuts, and $800 billion a year in military spending. These initiatives halted the 2008 financial crisis.

Although the national debt under Obama grew the most, dollar-wise, it wasn't the biggest percentage increase. That honor goes to Franklin D. Roosevelt. He only added $236 billion, but it was a 1,048 percent increase. He did this to fight the Great Depression and prepare the United States to enter World War II.

President Bush had the second largest deficit. He also fought the financial crisis with the $700 billion bailouts. Bush added the Economic Growth and Tax Relief Reconciliation Act and the Jobs Growth and Tax Relief Reconciliation Act tax cuts to end the 2001 recession. He responded to the 9/11 attacks with the War on Terror.

President Reagan cut taxes, increased defense spending, and expanded Medicare. All these presidents also suffered from lower tax receipts resulting from recessions.

Second, every president borrows from the Social Security Trust Fund. The Fund took in more revenue than it needed through payroll taxes leveraged on baby boomers. Ideally, this money should have been invested to be available when the boomers retire. Instead, the Fund was "loaned" to the government to finance increased spending. This interest-free loan helped keep Treasury bond interest rates low, allowing more debt financing. But it must be repaid by increased taxes when the boomers do retire.

Third, countries like China and Japan buy Treasurys to keep their currencies low relative to the dollar. They are happy to lend to America, their largest customer, so it will keep buying their exports. Even though China warns the United States to lower its debt, it continues to buy Treasurys. But China has lowered its holdings of U.S. debt.

Fourth, the U.S. government has benefited from low interest rates. It couldn't keep running budget deficits if interest rates skyrocketed as they did in Greece. Why have interest rates remained low? Purchasers of Treasury bills are confident that America has the economic power to pay them back. During the recession, foreign countries increased their holdings of Treasury bonds as a safe haven investment. These holdings went from 13 percent in 1988 to 31 percent in 2011.

Fifth, Congress raises the debt ceiling. Congress sets a limit on the debt but still increases it. That didn't happen between 2011 and 2013, though. That was because the debt crisis resulted in a government shutdown and budget sequestration. In 2015, Congress suspended the ceiling until after the 2016 presidential elections. In 2017, it raised the debt ceiling until the end of the year. In 2018, it suspended the debt ceiling until March 1, 2019. As a result, the limit will be whatever level the debt is on that day.

How the Large Debt Affects the Economy

In the short run, the economy and voters benefit from deficit spending. It drives economic growth. The federal government pays for defense equipment, health care, and building construction. It contracts with private firms who then hire new employees. They spend their government-subsidized wages on gasoline, groceries, and new clothes. That boosts the economy. The same effect occurs with the employees the federal government hires directly. As part of the components of GDP, government spending takes a huge chunk, most of which is allocated to military expenditure.

Over the long term, a growing federal debt is like driving with the emergency brake on. As the debt-to-GDP ratio increases, debt holders could demand larger interest payments. They want compensation for an increased risk they won't be repaid. Diminished demand for U.S. Treasurys would further increase interest rates. That would slow the economy.

Lower demand for Treasurys also puts downward pressure on the dollar. The dollar's value is tied to the value of Treasury Securities. As the dollar declines, foreign holders get paid back in a currency that is worth less. That further decreases demand. Also, many foreign holders of U.S. debt are investing more in their own countries.

At that point, the United States will have to pay exorbitant amounts just for the interest. The amount of federal spending today points to high-interest payments on the debt in the near future.

Congress realizes it is facing a debt crisis. Over the next 20 years, the Social Security Trust Fund won't have enough to cover the retirement benefits promised to baby boomers. That could mean higher taxes once the high U.S. debt rules out further loans from other countries. Congress is more likely to curtail benefits than raise taxes. That would primarily affect retirees younger than 70. It might also hit those who are high income and not as dependent on Social Security payments to fund their retirement.

Response option(s):

- In your own words, what is the national debt, and how did it get so large? Be specific.
- Why should a young person today care about the national debt?
- Pick any passage and respond to it.